VIRTUS FUNDS

Virtus Zevenbergen Innovative Growth Stock Fund

A: SAGAX (92837F318) | I: SCATX (92837F292) | R6: VZGRX (92837X640)

MARKET REVIEW

As the December calendar page turns and the last holiday cookie disappears, investors often consider changes to their portfolio allocations and lifestyle driven by the seasonal cycle. 2023 exemplified the challenges inherent in reacting to historical economic data and returns, reaffirming the adage that "past performance is not indicative of future results." At ZCI, we resisted the Ghosts of Christmas Past and remained resolutely forward-looking, focusing on the actions and goals of company management teams as they navigated an uncertain economic landscape. Much of 2023's relative outperformance was attributable to portfolio holdings escaping the previous year's penalty box through diligent expense management and accelerating product momentum. Investors continued to grapple with various factors during the quarter, including consumer resilience, business profit trends, and the implications of macroeconomic and corporate data on future investment returns. Additionally, the Federal Reserve's December minutes introduced the possibility of interest rate cuts in 2024.

FUND PERFORMANCE

The Virtus Zevenbergen Innovative Growth Stock Fund returned 15.80% (Class I) in the fourth quarter, surpassing the Russell 3000® Growth Index's 14.09% return. The outperformance was largely due to an overweight of the consumer discretionary industry (consumer services miscellaneous, diversified retailers, cosmetics) and stock selection within the technology industry (software, consumer digital services, semiconductors).

Shopify and MercadoLibre were the largest contributors to performance in the quarter.

> Reversing course from 3Q23's decline, shares of commerce enabler Shopify rallied as the company reported 25% year-over-year revenue growth and reiterated its commitment to operational discipline. Tangible proof points included the company posting its fourth consecutive quarter of positive free cash flow, and an investor day that outlined an addressable opportunity 16 times the size at its 2015 initial public offering. Long term, Shopify expects to continue to grow its share of large merchants, further expand in international markets, and drive adoption of emerging products (Shopify Balance, Shop Pay Installments, Shop Cash) that help merchants grow and scale.

> Latin American e-commerce company MercadoLibre continued to execute as customer adoption of its broadening suite of payments, credit, and logistics services keep driving customer value. Top-line growth accelerated to 40% year over year, and the company increased margins significantly ahead of expectations as the pace of capacity expansions moderates and is complemented by highly profitable advertising revenues. Management also revamped its loyalty program (Meli Más) in the quarter; it remains early in realizing the benefits of this Amazon.com-inspired "Prime" flywheel.

BILL Holdings and Enphase Energy were the largest detractors from performance in the quarter.

> Shares of payment solutions platform BILL Holdings fell sharply after management cut its full-year outlook to reflect the challenging environment faced by small and medium-sized businesses (SMBs), the company's core customer base. Attempting to navigate lingering inflation, higher expenses, and tight credit conditions, SMBs (particularly on the larger end) began tempering discretionary spending toward the end of the quarter, negatively impacting BILL's transaction-based revenues. In addition, client suppliers (those receiving payments through BILL's platform) began exhibiting greater sensitivity to the pricing of virtual payment methods and foreign-exchange conversion, prompting downward revisions on revenue share agreement assumptions. Given the macro headwinds, the company announced restructuring plans toward the end of the quarter that should support cost discipline on the path to profitability.

> Residential solar equipment provider Enphase Energy continued to see headwinds from rising interest rates, extended payback periods, and lack of clarity in government incentives. After slashing 3Q23 guidance to slow inventory builds, normalization in demand trends failed to materialize and led to a further 40% sales guidance cut for 4Q23. Management is hopeful that long-term secular drivers will return in mid-2024, but visibility remains low in an uncertain interest rate and political environment.

PERSPECTIVE

Reminiscent of a Rorschach test, interpretations of the market environment continue to fluctuate, with some seeing uncertainty where others see opportunity. While macroeconomic and geopolitical headlines have long played a role in how investors view the future, the rapidity of the modern news cycle has undoubtedly intensified reactions to market developments. It can be easy to get caught up in the noise, with a seemingly endless supply of commentary tempting many to make short-term decisions at the expense of long-term outcomes. We look forward to the year ahead, welcoming fellow investors to direct attention "back to the basics" of company fundamentals as portfolio holding businesses leverage efficiency improvements and AI integration efforts to drive product advancements and revenue growth. Our investment team is grateful for the conviction and long-term outlook demonstrated by those investing alongside us at ZCI.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Zevenbergen Capital Investments LLC

PORTFOLIO MANAGERS

Nancy Zevenbergen, CFA
Industry start date: 1981
Start date as Fund Portfolio Manager: 2004

Joseph Dennison, CFA
Industry start date: 2011
Start date as Fund Portfolio Manager: 2015

Anthony Zackery, CFA
Industry start date: 2011
Start date as Fund Portfolio Manager: 2015

TOP TEN HOLDINGS

	% Fund
Tesla Inc.	7.74
MercadoLibre Inc.	7.08
NVIDIA Corp.	6.27
Shopify Inc.	5.90
Amazon.com Inc.	5.79
The Trade Desk Inc.	4.93
Uber Technologies Inc.	4.51
Axon Enterprise Inc.	4.05
Snowflake Inc.	3.74
Advanced Micro Devices Inc.	3.63

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/23

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (02/23/04)
Fund Class I	15.80	65.58	65.58	-12.65	14.94	12.35	10.96
Index	14.09	41.21	41.21	8.08	18.85	14.33	11.05

Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit virtus.com for performance data current to the most recent month end. This share class has no sales charges and is not available to all investors. Other share classes have sales charges. See virtus.com for details.

The fund class gross expense ratio is 1.15%. The net expense ratio is 1.00%, which reflects a contractual expense reimbursement in effect through 4/30/2024.

Average annual total return is the annual compound return for the indicated period and reflects the change in share price and the reinvestment of all dividends and capital gains. Returns for periods of one year or less are cumulative returns.

Index: The **Russell 3000® Growth Index** is a market capitalization-weighted index of growth- oriented stocks of U.S. companies. The index is calculated on a total return basis with dividends reinvested. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

TOP FIVE CONTRIBUTORS

	% Contribution
Shopify Inc.	2.21
MercadoLibre Inc.	1.59
Uber Technologies Inc.	1.32
Advanced Micro Devices Inc.	1.27
Amazon.com Inc.	1.11

TOP FIVE DETRACTORS

	% Contribution
BILL Holdings Inc.	-0.79
Enphase Energy Inc.	-0.64
The Trade Desk Inc.	-0.47
Paylocity Holding Corp.	-0.15
Veeva Systems Inc.	-0.13

% Contribution: Absolute weighted contribution.

To obtain the top/bottom holdings calculation methodology, call 800-243-4361.

Notes on Risk: Equity Securities: The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small, medium, or large-sized companies may enhance that risk. **Foreign Investing:** Investing in foreign securities subjects the fund to additional risks such as increased volatility; currency fluctuations; less liquidity; less publicly available information about the foreign investment; and political, regulatory, economic, and market risk. **Consumer Concentration:** Because the portfolio is presently heavily weighted in the consumer sector, it will be impacted by that sector's performance more than a portfolio with broader sector diversification. **Limited Number of Investments:** Because the portfolio has a limited number of securities, it may be more susceptible to factors adversely affecting its securities than a portfolio with a greater number of securities. **Technology Concentration:** Because the portfolio is presently heavily weighted in the technology sector, it will be impacted by that sector's performance more than a portfolio with broader sector diversification. **Market Volatility:** The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Local, regional, or global events such as war or military conflict, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its assets as intended. **Prospectus:** For additional information on risks, please see the fund's prospectus.

The commentary is the opinion of the subadviser. This material has been prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice or an offer of securities.

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